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Study Reveals the Costly Impact of Third-Party Bad-Faith Law on Florida's Automobile Insurance System

MALVERN, Pa.—The Insurance Research Council (IRC) estimates that Florida's third-party bad-faith lawsuit environment may have resulted in over \$800 million in additional auto liability claim payments in 2013. This cost averages to approximately \$79 in additional claim costs for every insured vehicle in the state.

The IRC's most recent study, *Third-Party Bad-Faith in Florida's Automobile Insurance System*, reports that Florida experienced a dramatic increase in bodily injury liability claim frequency and an overall increase of 68 percent in average claim payments per insured vehicle from 1995–2013. In contrast, other large no-fault states that do not authorize third-party bad-faith lawsuits against insurers, including New Jersey, New York and Pennsylvania, experienced significant declines in liability claim frequency and much smaller increases or declines in claim payments per insured vehicle.

"The virtually unrestricted ability to file a third-party bad-faith lawsuit against an insurance company poses a serious threat to Florida's auto insurance system," said Elizabeth A. Sprinkel, CPCU, senior vice president of the IRC. "The possibility of winning large bad-faith settlements and court judgments creates powerful incentives for potential claimants and their attorneys to file auto liability insurance claims that otherwise would not be filed."

A contributing factor in Florida's growing problem with third-party bad-faith lawsuits is the apparent failure of the no-fault system's tort threshold to limit access to liability reimbursement under most auto insurance policies. In other no-fault states, the frequency of bodily injury liability claims is relatively low because the system is designed to limit the number of liability claims that are filed in exchange for access to no-fault reimbursement for lost wages and medical costs.

Florida's tort threshold, however, appears to have little or no effect on liability claim frequency. In 2013, Florida's bodily injury claim frequency rate was higher than the claim frequency rate of most tort system states (states without no-fault coverage) and was higher than the liability claim frequency rate countrywide. The impact of Florida's tort threshold and other important aspects of the no-fault system will be examined in additional research to be published by the IRC in 2014.

For more detailed information on the study's methodology and findings, call David Corum at 484-831-9046 or email IRC@TheInstitutes.org. For information about obtaining a copy of the study, please visit the IRC's website, www.Insurance-Research.org.

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